

EVALUATION OF OFFERS

Booklet 4

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PREFACE

This booklet series has been developed by the Industry Capability Network (ICN) to assist suppliers of information and communications technology (ICT) services in the public sector.

It is intended to provide a practical understanding of the policies, rules and processes that agencies follow when undertaking the procurement of ICT goods and services. By understanding these policies, rules and processes, suppliers are able to communicate with agencies in a more informed manner and are better positioned to respond to an agency's requirements.

Whilst every effort has been made to ensure these booklets reflect current best practice, readers should refer to the Ministry of Economic Development web site www.med.govt.nz for current government procurement policy and rules.

These booklets have been developed in parallel with the training material taught to public sector procurement practitioners as part of the Ministry of Economic Development's procurement training programme.

Structure of the Booklets

- Booklet 1 provides an introduction to the framework governing public sector procurement and the procurement life cycle model.
- Booklets 2 to 6 detail the activities and processes that occur within each of the five phases of the procurement life cycle model: -Planning -Requesting and Receiving Offers -Evaluation of Offers

-Contract Award -Contract Management

Procurement Life Cycle

Model

This diagram shows the five phases of the procurement life cycle





INTRODUCTIO

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The evaluation phase covers the procurement process from close of offers to the selection of the preferred supplier and the debriefing of suppliers.

The outcome of the evaluation phase is the selection of the supplier offering the best value for money. This outcome is achieved by carefully considering each offer on an equal basis, against the evaluation criteria.

In providing a framework for the selection of the best value-for-money supplier, this booklet covers:

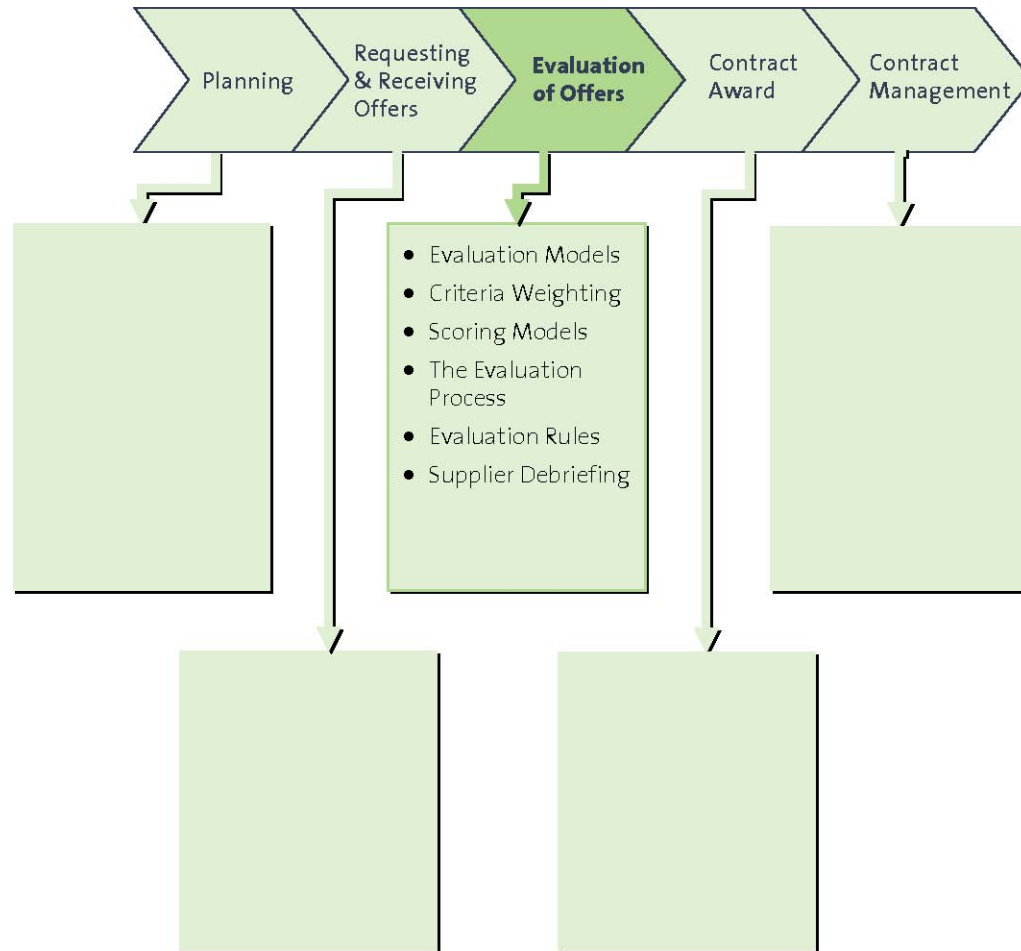
- evaluation models
- criteria weighting
- scoring models
- the evaluation process
- evaluation rules
- the evaluation team
- supplier debriefing

Note: It is important to note that while activities relating to the evaluation phase are covered in this booklet, the planning for the evaluation phase occurs in the planning phase and is documented in the procurement plan (see [Booklet 2](#)).



EVALUATION OF OFFER ACTIVITIES

This diagram shows the activities and processes in the evaluation of offers phase of the procurement life cycle model.



EVALUATION MODELS

The evaluation model is the model used to assess competing suppliers' offers. The type of evaluation model selected impacts on the content of the Request for Offers (RFx) document. The decision on the evaluation model is therefore made as part of the planning phase.

Commonly used evaluation models in ICT procurement

- include:
- Lowest Price Conforming
 - Weighted Attribute
 - Target Price



Lowest Price Conforming the median price receives a score of 5

The Lowest Price Conforming (LPC) model is the most basic model and has the strongest emphasis on price. Using this model, the lowest-priced offer is selected once a prerequisite level of quality is met.

It is applicable where quality over and above the minimum threshold is not important (i.e. it does not offer greater value for money).

The theory behind the LPC method of evaluation is that the contract is won by the supplier that has the most efficient systems and working methods, the best equipment and the most skilled staff, which then enables it to carry out the job to the required quality at the lowest cost. In reality this may not be true, with the possibility that the supplier misunderstood the tender documents and what was required, or deliberately priced low with the intention of submitting additional claims or renegotiating the scope of work.

Example

The LPC model might be applicable for the evaluation of quotes where suppliers have priced against a clearly prescribed specification, for example the installation of data cabling in a new floor fit-out, or the supply of some standard, commercial, off-the-shelf hardware.

Weighted Attribute

The Weighted Attribute model is the most common model used in New Zealand public sector procurement. This model seeks to balance the trade-off between price and quality. It can be used for goods or services.

Under this model the attributes (criteria) are weighted to reflect their relative importance. (refer to [Criteria Weighting](#)). For each supplier the criteria are scored, and each score is multiplied by the relevant weighting to give a weighted score. The weighted scores for each offer are added up to find the highest-scoring supplier.

Some Weighted Attribute models weight all the evaluation criteria, including price, while others only weight the non-price criteria.

When weighting price, the model requires a formula to convert the price into a score. One formula used is:

$$\text{Score} = 5 + 10 \times \frac{(\text{Median Conforming Offer Price} - \text{Offer Price})}{(\text{Median Conforming Offer Price})}$$

where the price score may be negative but shall not be greater than 10.

The formula means that:

- an offer price that is higher than the median price receives a score of less than 5, while an offer price below the median price receives a score of more than 5



- offer prices that significantly exceed the median receive a negative score (this is considered appropriate and the score is carried through to the calculation of the overall weighted score for the supplier) a cap of 10 helps prevent suppliers achieving an extremely high score by tendering an unrealistically low price

When weighting price, agencies carry out some level of sensitivity analysis when establishing the weights to ensure they are appropriate. If the price weighting is too high, the evaluation effectively becomes lowest-price conforming. Conversely if the price weighting is too low, the best value-for-money solution won't rise to the top.

If price is not being weighted, the agency will have a defined process for bringing the non-price score and the pricing together to determine an overall value-for-money ranking. This is commonly achieved through a narrative assessment of the relative price and non-price components.

Target Price

This model is useful when it is difficult to define the scope of the work in Requests for Proposal (RFPs)/Requests for Tender (RFTs). Examples of where this model might be used include reviews, investigations and studies.

By using a Weighted Attribute model for these examples, the agency is likely to be presented with a range of offers and prices that are not easily compared, and of which many may exceed the available budget. The solution in these cases is for the agency to make the suppliers aware of the available budget (the "Target Price") as a guide for defining the scope of services desired, then inviting suppliers to specify what they can do for that price. The Target Price model can also be used in general services' procurements where the available budget is the key constraint.

Example

The Target Price model would be appropriate where an agency has a fixed budget available for a refresh of its web site, and recognises the available budget will not cover all the desired changes. Using the Target Price model, the agency specifies the available budget in the RFP document and invites suppliers to submit proposals describing what they could provide for the available budget.

The main advantages of the Target Price model

- are:
- buying agencies procure the best value for the money available
 - suppliers do not waste their time tendering for work that is too large or too small for them
 - suppliers can develop their solution in an informed manner (i.e. with knowledge of one of the key constraints/criteria)

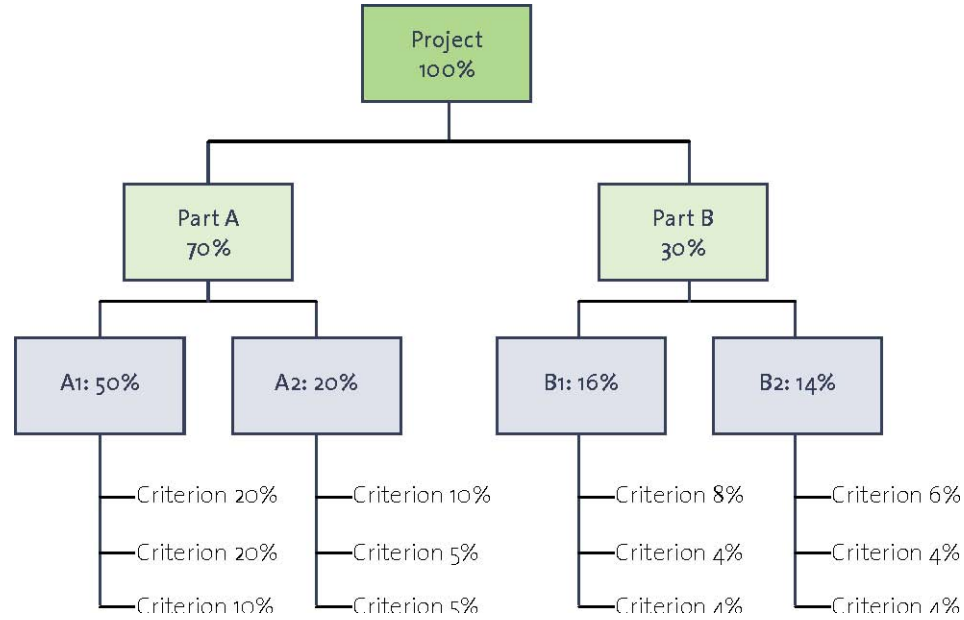
From the buying agency's perspective, the main risk with the Target Price model is that they must be sure they cannot get the activity completed with the required expertise and to the required level of detail at a price lower than the specified budget – otherwise they are wasting money.



CRITERIA WEIGHTING

In very few cases are all of the criteria in an evaluation equal. For example, in an ICT services' procurement, the help desk support will be far more important than the timeliness of the billing. Therefore in the majority of procurements there is a requirement to use some form of weighting to reflect the relative importance of individual evaluation criteria.

One of the most common methods of applying weighting involves the use of a weighting architecture similar to the example below.



WEIGHTING PRACTICE

High weightings are not placed on criteria every supplier can meet.

It is considered good practice to highlight mandatory criteria as part of the agency's specification or statement of work. This ensures suppliers that are not able to meet the mandatory requirement do not waste either the agency's or their own time in submitting a response.

Evaluation criteria and weightings are normally developed and approved prior to the RFX being issued. At a minimum they are developed and approved before the offer closing date.



SCORING MODELS

Scoring models with appropriate narrative descriptors are used for ensuring evaluations are scored in a consistent manner.

- For weighted criteria, scoring scales of 0-5 and 0-10 are most commonly used.
- For mandatory criteria “yes/no” or “pass/fail” scoring is usually used. Numerical scoring of mandatory criteria usually involves a 0 for a fail and a 10 for a pass (or a 5 if using a 0-5 scale).

An example numeric scoring model is at [Appendix](#)

[1](#).

THE EVALUATION PROCESS

The evaluation process is documented in the procurement plan and, depending on whether a one- or two-stage procurement method is used (see [Booklet 3](#) for detail), will generally follow the following steps:

- Evaluation team members complete conflict-of-interest declarations
- Evaluation team members are briefed on the evaluation process and receive training if necessary.
- Copies of the suppliers' offers, scoring scale and evaluation forms are distributed to each evaluation team member.
- Note: If a two-envelope method is being used (i.e. price has been requested in separate, sealed envelopes) only the non-price parts of the offers are distributed to the evaluation team members, with the price envelopes remaining unopened and securely stored
- Evaluation team members complete individual assessments of the suppliers' offers. This ensures each evaluation team member has adequately reviewed the offers prior to the team evaluation meeting and that no single team member is able to exert inappropriate influence on the outcome by being better prepared.
- Note: In some simple evaluations, such as the evaluation of quotes using the LPC method, it may not be necessary for the evaluation team members to complete individual evaluations. In these cases the evaluation team will just meet and complete a team evaluation
- The evaluation team members meet and complete a “team” evaluation. Team scores may be reached by a number of methods, with averaging the individual scores and reaching a team consensus score being the two most common. Of the two, the consensus scoring method is the most frequently used, as it allows a score to be agreed based on consideration of all the evaluation team members' opinions and observations. The averaging method does ensure a persuasive or dominant individual is not able to exercise undue influence. However, it also means an individual's scores that, based on reconsideration of the supplier response in light of other team members' comments would have been higher or lower, still form part of the calculation for a final score



- If price has been requested in separate, sealed envelopes, these envelopes are opened after the team scoring of the non-price criteria and a ranking agreed by the evaluation team. The ranking method will be determined by the evaluation model used. For example:
 - using LPC, the lowest-priced conforming offer is automatically the preferred supplier
 - using Target Price (where all offers are made against a specified budget) the highest-scoring supplier based on an assessment of the non-price criteria is the preferred supplier
 - using Weighted Attribute, the highest-ranked offer is based on an assessment of which offer provides the best value for money. If price was weighted, this is calculated by summing the weighted scores for both the price and non-price criteria and the highest-scoring offer is the preferred supplier
- In some cases the two or three top-ranked suppliers are shortlisted and asked to provide presentations on their offers. As the presentations are still part of the evaluation process, they remain quite structured to ensure suppliers are treated equally. This means the suppliers are provided with the same notice period to prepare for the presentation and the same length of time for the presentation, etc. Following the presentations the scores of those suppliers are reviewed and the final ranking agreed
- referee-checking or further due diligence is carried out if the preferred supplier is not well known to the agency. The purpose of the reference-checking is to verify the assessed level of performance, capability or expertise and to satisfy the agency generally that the supplier is likely to deliver what it has offered. Further due diligence, such as financial viability checks, is generally only conducted where the procurement is high risk, high profile or high value (refer to [Undertaking Due Diligence](#) in part 2 the OAG's *Procurement – A Statement of Good Practice*).

EXPRESSIONS OF INTEREST (EOI)/REGISTRATIONS OF INTEREST (ROI) EVALUATION

The evaluation process for an EOI/ROI is generally the same as outlined above, except the process is complete once a shortlist has been established:

- evaluation team members complete conflict-of-interest declarations
- evaluation team members are briefed on the evaluation process and receive training if necessary
- copies of the suppliers' responses, scoring scale and evaluation forms are distributed to each evaluation team member
- evaluation team members complete individual assessments of the suppliers' responses
- the evaluation team members meet and complete a "team" evaluation. Team scores may be reached by averaging the individual scores or reaching a team consensus score
- suppliers that meet all specified mandatory requirements are ranked in order and a shortlist based on the top-ranked suppliers is developed



As a general rule, no more than three or four suppliers are shortlisted and invited to submit full proposals/tenders.

Where it is clear from the EOI/ROI that a supplier does not have the experience, capability or capacity, it is not shortlisted. In the event the EOI/ROI evaluation finds that only one supplier has the requisite capability, capacity or experience, the project normally proceeds as a selective (sole source) procurement.

At the end of the EOI/ROI evaluation process, the agency advises the shortlisted suppliers they have been shortlisted. Those who have not been shortlisted are advised accordingly and offered the opportunity for a debrief.

EVALUATION TEAM

The composition of the evaluation team depends on the size and complexity of the particular procurement, however as a general rule the evaluation team includes:

- a procurement specialist, who in addition to any other role ensures the evaluation process is managed in a fair, robust and defensible manner, understands the rules of the evaluation and ensures they are followed
- commercial/financial expertise
- appropriate technical expertise

In most small to medium-size procurements, a team of three or four is adequate, however in particularly large or complex procurements there may be separate teams for the different components of the evaluation e.g. telecommunications, security, commercial.

SUPPLIER DEBRIEFING

Supplier debriefing is considered an important part of the evaluation process, as this provides suppliers with the opportunity to receive feedback on their offers and gain an understanding of where they can improve their offers to better meet the needs of the agency in future.

The Government Procurement Policy requires a debrief to be provided to a supplier where one is requested.

Using the debriefing

Use the debrief time to gain a full understanding of the process, why you were not successful and what you would have needed to do in order to be successful. Use it as a learning opportunity.



BUYER-SIDE ETHICAL CONSIDERATIONS RELATING TO THE EVALUATION PHASE

Buyer-side ethical considerations relating to the evaluation phase include:

Fairness: Ensuring the evaluation process is fair to all suppliers, and that all suppliers are treated the same throughout the process. This applies to consistency in the way scores are applied, providing the same opportunities for clarification where appropriate, providing the same preparation time for shortlisted supplier presentations, etc

• **No conflicts of interest**

Ensuring the evaluation team members have completed conflict-of-interest declarations, that these have been reviewed, and that any potential conflicts have been managed appropriately. The perception of a conflict is as important as an actual conflict, and agencies must actively manage it in the same way. In some cases this means replacing people on the evaluation team or limiting their involvement to certain parts of the evaluation process.

RISKS

Generic risks identified by agencies relating to the evaluation phase of the procurement life cycle include:

• failure to plan the evaluation as part of the procurement planning phase, which may result in an evaluation process that is not aligned to the RFX document – and which results in an evaluation process that does not identify the best value-for-money offer

• failure to brief and train the evaluation team adequately in the evaluation rules and process, which may lead to: -an evaluation process that does not identify the best value-for-money offer

- breaches of the evaluation rules, which result in an adverse public profile, embarrassment to the agency and/or formal complaints from the bidders

- failure to confirm the availability of evaluation team members as part of the planning process, which may lead to delays and slippage in the evaluation
- failure to ensure all evaluation team members complete conflict-of-interest declarations, which may lead to: -delays once a conflict of interest has been identified while a replacement person is found -a need to repeat the tender or evaluation process if the conflict of interest is not identified until after the evaluation process

- embarrassment to the agency if a conflict of interest comes to light after the procurement is completed, and possible complaints or damages claims from potentially disadvantaged suppliers

APPENDIX 1: COMPLIANCE AND DEFICIENCY RATINGS

Compliance	Definition	Deficiency	Score
Significantly Exceeds	<ul style="list-style-type: none"> Significantly exceeds the requirement in a way that provides significant "added value" to [buyer agency]. 		9-10
Exceeds	<ul style="list-style-type: none"> Exceeds the requirement in some aspects and offers some added value to [buyer agency]. 		7-8
Compliant	<ul style="list-style-type: none"> Has shown an understanding of the requirement to a minimum level. Can provide the requirement to the minimum level. 		5-6
Non-compliant	<ul style="list-style-type: none"> Does not meet the requirement: <ul style="list-style-type: none"> Marginally deficient. Minimal cost or schedule impact to address. Minor negotiation required to achieve requirement. 	Minor	3-4
Non-compliant	<ul style="list-style-type: none"> Does not meet the requirement: <ul style="list-style-type: none"> Requirement only partially met. Achievement of the requirement will impact on cost or schedule. Significant negotiation required. 	Significant	1-2
Non-compliant	<ul style="list-style-type: none"> Does not meet the requirement: <ul style="list-style-type: none"> Requirement not met to any degree by the solution offered. No information provided. 	Critical	0